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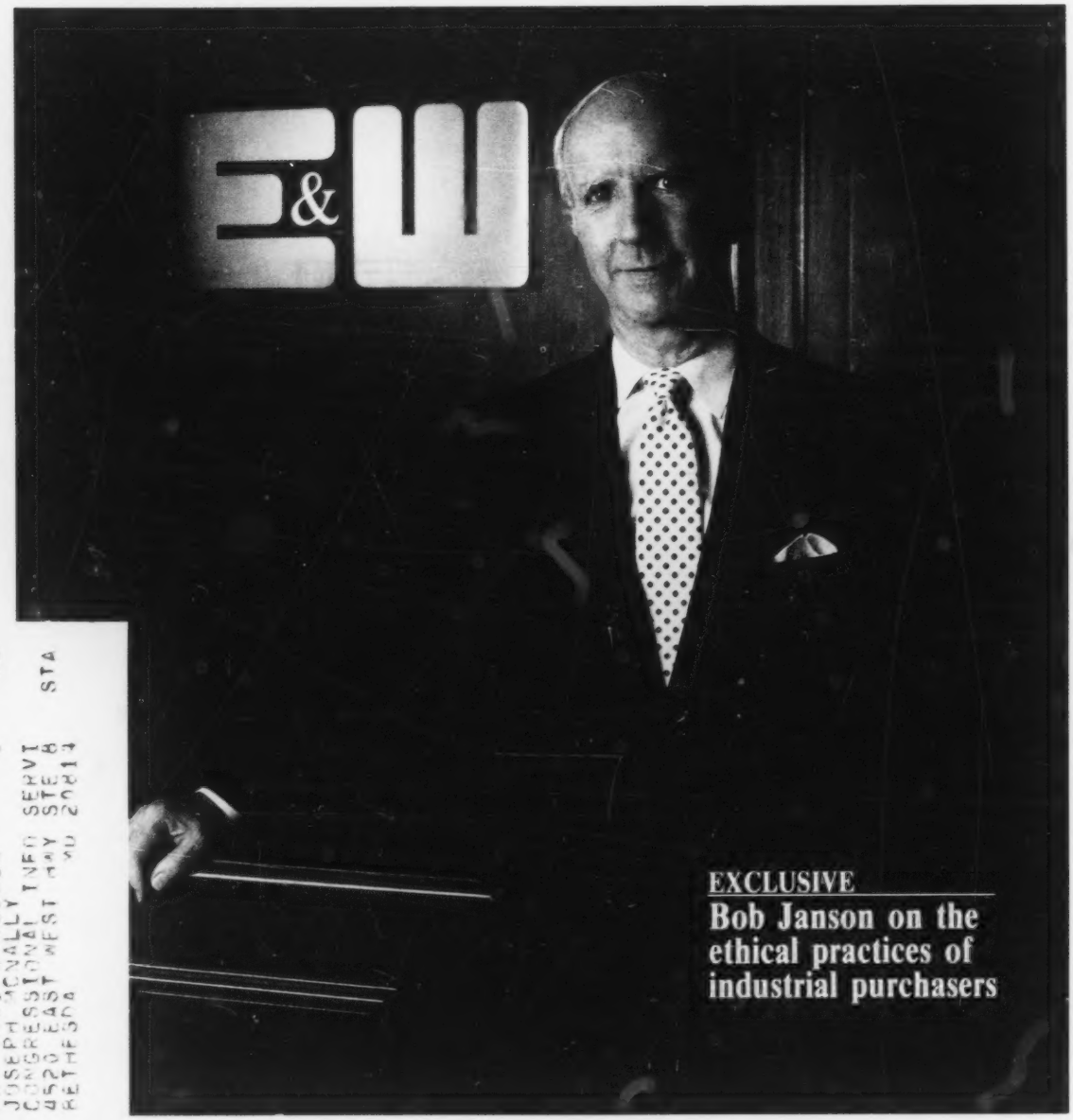

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EXCLUSIVE

Bob Janson on the ethical practices of industrial purchasers

Three scenarios for the steel scene—the good, the bad, and the ugly

Delivery performance is seen as a quality issue

Electronic data interchange changes office procedures

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What are the ethical challenges today's purchasing professionals face—and how are they responding to those challenges? These and other questions are the subject of a comprehensive Ernst & Whinney study on purchasing ethics. The somewhat surprising results may prompt *PW* readers to reexamine their companies' ethical policies.

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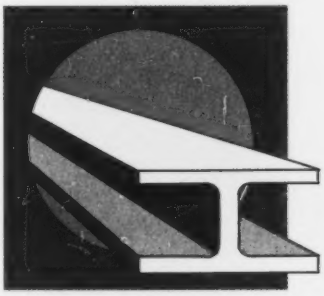

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No charge, management consulting referrals

Locating the appropriate management consulting firm can be simplified using the free services of ACME, Inc., the association of management consulting firms. ACME's extensive data bank on the practice areas and specialties of the leading independent management consulting firms that comprise its membership helps companies locate firms with the qualifications and experience to match their specific needs. **Circle 95**

Custom metal parts contract manufacturing

Contract manufacturing of metal stampings in steel, brass, copper, aluminum and composite metals is offered by Kimball Electronics, Inc. Services include product design and engineering, tool and die engineering, stamping and forming, fabrication, assembly, and advanced quality control procedures. **Circle 97**

True cost of imports versus domestic sources is revealed through use of free worksheet

To assess and evaluate the hidden cost burden of foreign-made parts and machinery, the National Tooling and Machining Association (NTMA) is offering free its *True Cost Worksheet.*

The worksheet has been designed to standardize purchasing evaluation procedures and to provide additional justification consistently and uniformly across many jobs. It provides a framework for purchasers to develop customized evaluation procedures for their companies in order to determine total and actual costs.

Major hidden costs of imports, according to NTMA, are: customs duties, freight, insurance, delays in delivery, difficulties with design, alterations in engineering specs, delays and errors due to communications problems, and additional paperwork. These hidden costs, notes the NTMA, are not reflected in the quoted price for certain foreign-made products. Thus, the total cost of sourcing abroad could be significantly higher than the quoted price, bringing the actual costs in line with prices quoted by domestic sources. **Circle 78**

Clean and recycle a 'Dirty Dozen' gloves—FREE!

Cleaning and recycling industrial work gloves can effect a direct cost savings of 80¢ to $5 per pair, according to Richard O'Sullivan of Arbill, Inc. Arbill is offering to clean and recycle a 'Dirty Dozen' industrial gloves at no charge to introduce this service.

Many employees, notes O'Sullivan, "find it easier to handle products without breakage or damage because industrial gloves often become more supple after reconditioning. It is also affordable to change the gloves before they become sweat laden or otherwise uncomfortable, assuring maximum welfare."

Direct savings of 60% of new glove replacement cost, is claimed, by issuing a combination of recycled and new work gloves instead of discarding soiled gloves. Arbill also recycles wipers, aprons, rags, and other products used to remove dirt, grime, and some hazardous wastes.

For a special container to be used to get a "Dirty Dozen" industrial gloves recycled free, **Circle 94**

Free regional industrial buying guide

Regional buying guides that pinpoint industrial suppliers in 14 distinct geographic areas are available free to purchasing professionals for their specific locales.

The guides include product and supplier information, product and service headings, A to Z company listings, and cross-references. The company data includes name, address, telephone number, and type of firm.

Local sources for over 3,500 industrial products are listed in each regional directory. If a local source isn't listed in your region for a product you need the publisher provides a free locator service.

The directories cover the following 14 regions: Eastern New England; Western New England; Greater New York; Western/Central New York; Capital Cities; North Texas-Oklahoma; Texas Gulf; Greater Michigan; Greater Delaware Valley; North Jersey; Greater Allegheny; North Central Tri-State; Northern Ohio; and Ohio Valley. To get a free directory for your area **Circle 92**

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Most Americans are positive about their jobs

Most Americans, 65%, have a positive attitude toward their jobs according to a survey of personnel managers at the nation's 1,000 largest corporations conducted by Accountemps. Another 32% tolerate

...continued

Will the lid stay on inflation?

Are inflation pressures building up or not? A seemingly good case that they are can be built up by quoting latest price statistics. Current industrial producer price trends have accelerated—from last year's 2.6% advance to about 4% over the past few quarters.

Increases at the primary stages of production—notably crude and intermediate non-food products—have been rising at an even faster pace. It's hard to deny that steel, nonferrous metals, paper and plastic resins all command a lot more than they did a year ago.

Finally, the latest findings of the NAPM Business Survey Committee show that 50-70% of the group's 250 buyers are experiencing higher procurement tags far outweighing the 1-3% who have been lucky enough to negotiate reductions.

But higher prices over a short time period don't necessarily signal the start of a new price spiral. The big question is about the factors that will be influencing the next few quarters.

Some "nervous nellies" point to continuing supply problems. But this should not be exaggerated. The 85% operating rate (historically the starting point for any really big spurt) is nowhere in sight. Note that the current 82%-plus figure has remained relatively unchanged since the beginning of the year as modest increases in industrial production are offset by increased spending on new production capacity.

Problems remain—notably in the raw material area. But the situation here seems to be stabilizing—with some reduction in operating rates if demand slackens in the second half. This could already be happening in the primary processing industries where the average operating rate has recently slipped about 1%.

Also worth noting on the capacity front: Both private forecasters and Uncle Sam expect capital spending to rise nearly 8% this year after adjusting for inflation. These studies also suggest that the biggest bucks will be spent on those industries that really need to add capacity—notably paper and chemicals.

Upshot: As long as exports don't surge and U.S. demand remains temperate, manufacturers should be able to meet orders with little or no trouble.

The talk about rising wage cost pressure also has to be taken with a grain of salt. Here again, the worriers have some numbers to cite—compensation costs have risen 3.9% over the latest 12-month period—up 3.1% from the previous 12 months.

The point should be made that the 3.9% figure is the second lowest in a decade. And more important, the productivity offset is still a factor—knocking about 1% off the overall pay figure—and 2% off in the manufacturing sector where efficiency gains have been coming in at a faster clip.

Encouraging news comes from the energy area where OPEC is having trouble maintaining prices—much less raising them. Conclusion: Energy averages this year won't be much above 1987 average levels.

There's little to indicate any big new spiral this year. Look for the nation's general inflation rate to climb a notch or two—to maybe 5%.

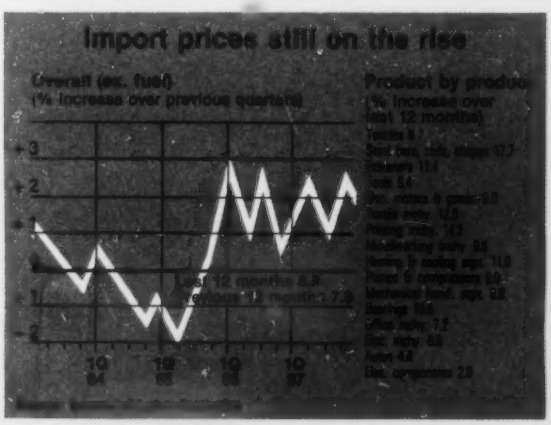
Import prices keep rising on the soft dollar

Finding import bargains continues to get harder. Look at the accompanying chart which shows overseas tags (except fuel) advancing 2.3%. Compared to a year earlier, these quotes are up 9%.

Blame it all on the delayed impact of the sharp decline in the value of the dollar during 1987.

Here's a more detailed rundown of the first few months of 1988:

- **Crude materials:** A 5.8% jump in the first quarter, leaves this key category 12% above a year earlier. Leading the advance for the quarter were metal ores and scrap (up 9.6%), and pulp and wastepaper (up 7.1%).
- **Chemicals:** The 3.7% advance of early 1988 follows an even bigger 4.3% jump in the fourth quarter of 1987. Specific increases over the latest 3 months: medical and pharmaceutical products (7.1%), organic chemicals (2.7%), and inorganic chemicals (2.0%).
- **Intermediate manufactures:** Steel products jumped 5.3%, enough to bring 16.8% year-to-year advance. Other notable increases include paper and paperboard products (4.4%), nonferrous metals (2.7%), and metal manufacturers (2.8%).
- **Machinery and transport equipment:** Only a 1.7% overall gain was noted over the past quarter. But bigger boosts were reported for electric machinery (3.6%), specialized machinery (3.3%), general industrial machinery (2.4%), metalworking equipment (2.2%), and motor vehicles (2.1%).



Price inflation at the office

A new survey of 350 manufacturers by the Quill Corporation puts the advance for the half year ending this October at 3.8%—well above the 1.2% estimate for early 1988 made six months ago.

Why the acceleration? Much of it, says Quill, can be traced to rising paper, plastic and metal material costs—plus the devaluation of the dollar against the Japanese yen.

Here are the product-by-product details:

Typing supplies: This group should rise about 2.0%—up slightly from previous months due to a 6-7% boost in correction fluid.

Data and word processing supplies: The average increase should be 1.8%. But computer paper and labels should rise by 6-7%.

Reproducing supplies: Budget for a 5.6% boost—more than three points above the past six months. This is due to increasing copy paper and toner quotes.

Envelopes and stationery: Rising paper costs will result in a 6.8% boost—almost four points higher than the predicted change for the last six months.

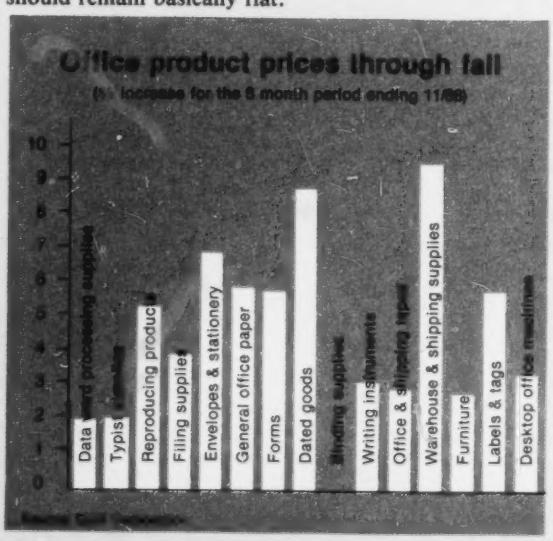
Writing instruments: Much of the expected 3.3% rise will be fueled by the softer dollar. But cost increases in plastics (primarily styrene) will affect marker and highlighter prices.

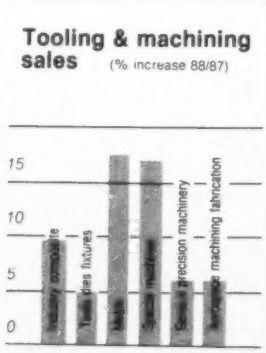
Office and shipping tapes: Higher costs of adhesives (natural rubber and rubber resins) and film (polypropylene) will push tape tags up approximately 3%.

Furniture: A 2.8% rise is projected.

Reason: Rising costs of corrugated and steel.

Desktop office machines: Averages will rise 3.2%—up from the 1.2% level predicted for the last six months. The increases in calculators and copiers will be almost entirely due to the softer dollar. Typewriter prices should remain basically flat.





Good year for tooling and machine

Another good demand year seems all but assured for the industry which designs and manufactures tools, dies, molds, gauges and special machines for many manufacturers. Right now all signs point to about a 9% advance in overall sales this year. But there could be differences in individual sectors. Hence these more detailed forecasts: Special machines (12%), molds (13%), precision machining (6%), aerospace (6%), and tools, dies and fixtures (5%).

Powder metal parts gain

Figure on sharply increased purchases as uses broaden over the next few years. Iron and steel types should lead the way—with eye-opening 16.4% annual gains seen over the 1987-1992 period. The figures, based on a new study by Cleveland's Freedonia Group, also calls for solid 8% gains for copper and copper-based powder metal parts—especially in the bearings and electrical/electronics area. Aluminum alloy parts also could rise—finding increased applications in the auto and aerospace sectors. Price increases should be modest—about 3% a year overall during the 1987-1992 period.

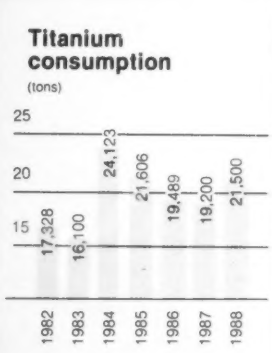
Natural gas tags drop

Spot tags have dropped after excessive buying for storage caused a brief surge this past winter. Benchmark wellhead quotes (U.S. Gulf Coast) recently declined to $1.25-1.30/MCF—off about 38% from recent peaks and 13% under year-ago levels. Even so, the demand outlook remains fairly bright as the trend toward more long-term supply contracts between gas buyers and sellers continues. These contracts, incidentally, now allow for flexible prices based on changing market conditions.

Aluminum advances slowing

Higher ingot tags continue to spread downstream to fabricated products—with one firm scheduling a new double-digit increase for aluminum cans. But the advance could soon begin to run out of steam as increasing production and somewhat smaller demand gains bring the market back into balance. This, in turn, could make for some modest ingot declines by summer or fall. The long-term outlook also points to some price relief as 1) previous shutdown facilities are reactivated and 2) another round of smelter expansions (in Australia,

Venuzuela, Canada and the Middle East) gets under way over the next few years.



Boosts for titanium

Prices are moving up on a broad front. Examples: Alloy sheet and plate will be advanced 5% while commercially pure plate and billet jump 7% and 10%, respectively. All hikes apply to fourth quarter shipments. Behind the boosts: Rising raw material, energy and environmental protection costs. Another factor could be strong demand—with domestic consumption this year expected to jump 12% to near 21,500 tons. Long-term prospects are also quite bullish—with a 6% annual rate of increase seen through 1992.

Will freight hikes stick?

Truckers may have some difficulty in making another rate hike stick. One alternative: A tightening up on rate discounts—and perhaps some switching of freight to non-union affiliates. Meantime in ocean shipping, a drop in volume from Asia to U.S. ports is leading to fierce competition and lower tariffs on many commodities. Sign of the times here: Many vessels are sailing from the Far East only about 75% full compared to 90% full last year. U.S. to Europe rates are moving up—reflecting increased American shipments to the continent.

running well above the all-U.S. 16.3% rate reported by Coldwell Bankers (a real estate firm) include Dallas, Denver, Houston, Kansas City, Miami, New Orleans, St. Louis, Salt Lake City, and San Jose. Industrial vacancies, too, remain quite high (5.8%)—well above the 4.6% figure reported as recently as late 1984.

Electronic components tight

Still no end in sight to the 256K DRAM runup. Spot market sales now run near $11/chip. Contract buyers are faring only a little better—with averages here in the $3-6 range. Also worth noting: While the shortage of DRAMS has received most of the publicity, tightness also persists in printed wire boards. As for overall semiconductor demand—all signs now point to a big 20-25% dollar advance for 1988—and another 15% jump in 1989.

Zinc demand is up and inventory is down

CURRENT SITUATION: The plating and alloying metal is riding high these days. Right now the going quote has jumped into the upper 50s range—a far cry from the 37¢/lb low prevailing as recently as last spring. Other signs of strength: Several producers are reported to be sold out of SHG material through June—normally a quiet month because of slower car production. **Business remains strong as both galvanizers and diecasters buy up all the available supply.** This, in turn, has pushed producer inventories down to under 45,000 tons—off from the previous month.

MAND: The fast early 1988 start virtually assures ther plus year. Best bet for overall slab zinc conıption: A rise to near 1.05 million metric tons—conıing the long-term domestic advance that began after 2 when only 710,000 metric tons cleared the market. **ch of the increase both this year and last can be traced ncreased use of galvanizing**—though the brass marıs faring quite well, too. **As for the longer pull—all ıgıs point to about a 2% annual growth rate into the early 1990s.**

SUPPLY: Improving availability is seen after midyear as demand flattens out a bit and production continues to gradually increase and a new Alaskan facility comes on stream late this year. Canada, accounting for 65% of total imports, will be another prime supplier. Eventually, new production is planned from Canada, Australia and the additional Alaskan mine. **Best bet: Market balance by late in the year** and maybe even some surplus by 1989 if projections for slower overall domestic growth materialize.

PRICE OUTLOOK: Tags should begin to top out—if not in the weeks immediately ahead then certainly by summer when demand normally tapers off. Any decline at that time and beyond is likely to be quite modest—with 3-5¢/lb being shaved off current levels by late fall. The slowly improving supply situation detailed above should help keep a lid on prices into 1989. Preliminary econometric projections—those which factor in all pertinent supply, demand and cost variables—**suggest tags dropping into the 50¢/lb range by early 1989.**

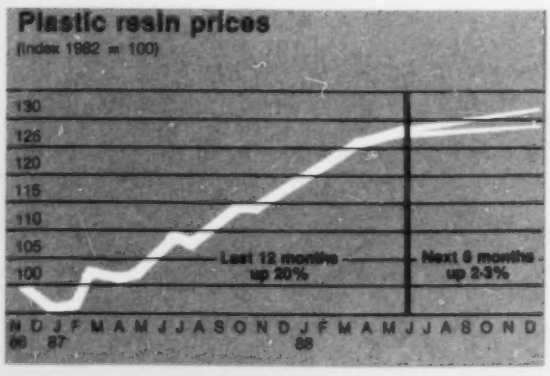
Plastic resin makers running near peak capacity

CURRENT SITUATION: Plastic resin markets remain buoyant—with prices continuing to advance. These hefty increases over the past year tell the story: LDPE liner film (48%), HDPE injection molding (51%), PP homopolymer (39%), PS general purpose/crystal (23%), PVC pipe grade (23%), and ABS pipe grade (31%). **Sparking these advances has been a combination of rapidly rising feedstock costs, strong demand and tight supplies.**

DEMAND: The industry—even with some second half deceleration—should rack up substantial 1988 gains. Best bet: a 4-5% overall advance—all on top of 1987 when totals jumped by 11.7%. PP should lead this time around—with a 7% increase anticipated. Other projected demand increases in descending order are HDPE (6%), PS (5%), ABS (4%), LDPE (3%) and PVC (2%). As for 1989 assume a continuation of current slow, steady growth—**and another 3-4% overall increase.**

SUPPLY: The big demand gains of the past few years have made for considerable tightness. This year the industry will operate at near 95% of its potential—and near 100% in the case of HDPE and PP. The only resin in the volume thermoplastic area under 90% is ABS (near 80%). **But generalized relief is on the way—as big chunks of new capacity are put in place during 1988 and 1989.** Some 13% will be added onto overall production potential over this two-year period.

PRICE OUTLOOK: More increases seem inevitable—as key feedstocks like ethylene and propylene continue to rise. **But boosts will be more moderate than in recent months—because of decelerating demand-supply pressures and the improved profit margins now reported by most producers.** Price averages should advance 2-3% over the next two quarters. And by next year at this time, the typical resin should be commanding only 5-6% more than it does now.

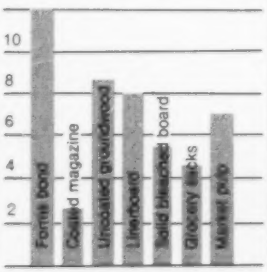

Plastic resin prices
(Index 1982 = 100)
130
125
120
115
110
105
100
Last 12 months up 20%
Next 6 months up 2-3%
N D J F M A M J J A S O N D J F M A M J J A S O N D
86 87 88

Copper stays nervous

The red metal remains on the nervous side as supplies become a bit more ample. In any case, there's apparently enough to go around for immediate needs. Buyers don't seem anxious to enter the market for additional metal—particularly with the low-consumption summer season approaching. Other signs that tags are more likely to decline than increase: Rising producer stocks and increased sales by the Chinese. A modest supply excess should develop this year as production rises 5-6%. And by early 1989, tags could well drop into the 80-90¢/lb range.

Paper produced prices

(% unused since beginning of year)



Send in the clones

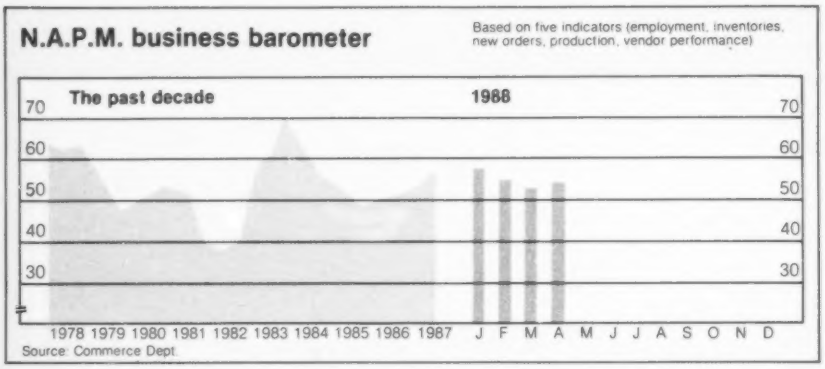
Clones of IBMs PS/2 line, due out in the next few months, may not be all that much under the big company's models. Certainly nothing like the 25-40% price breaks of a few years back (when IBM first introduced its PC line) are anticipated. Based on cost comparisons, the price gap now is more likely to be only in the 15-20% range. Reasons: IBM now makes its own parts quite efficiently—plus the fact that the firm will be charging for licensing patents on PS/2 technology.

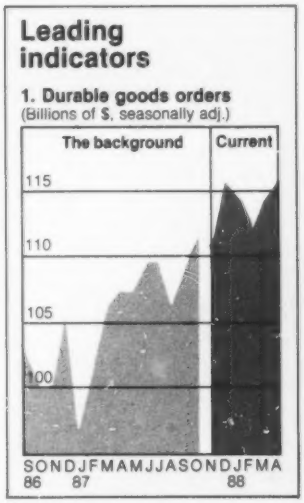
Paper cuts upward

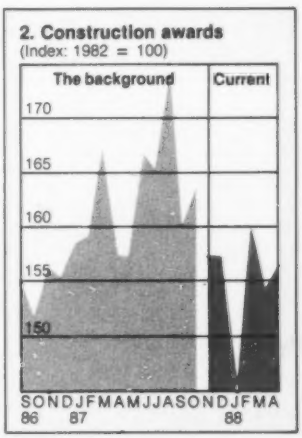
Advances are still the order of the day. Even bleached board, after holding relatively steady in 1987, is beginning to move (up $35/ton recently—to $685/ton). Corrugated is also on the rise to reflect earlier linerboard increases. And market pulp has jumped another $40/ton in response to the weak dollar—with more increases possible here later this year. Finally, on the fine paper front, further boosts in uncoated lines are noted—with only the lower grades of envelope and tablet remaining on the easy side.

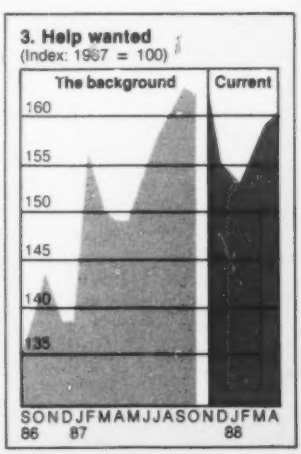
Disk drives spin slower

A slowly eroding market has forced digital equipment to knock as much as 51% off some of its models—including the high capacity SA482 and RA82 Winchester units. A company spokesman adds it follows similar reductions by competing vendors. Weakness in this area is also confirmed by the Quill survey which notes that this is one of the few areas in the "data and word processing supply" area where prices are expected to decline over the next six months.


N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1988
70
60
50
40
30
1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 J F M A M J J A S O N D
Source: Commerce Dept.







KEY ECONOMIC TRENDS

And the growth goes on

Growth is still the order of the day. All signs point to a second quarter repeat performance of the January-March 2-2.5% real GNP advance.

One major plus sign: Earlier fears of an inventory build-up are quickly disappearing. Right now stocks are growing in line with sales. Result: The inventory/sales ratio remains relatively low—allowing for continued growth as new orders roll in.

Equally encouraging is the still-strong pace of consumer spending. This is particularly true in autos, where sales of domestic models set for this year are being clocked in at a strong .6 million annual rate. Some of this firmness is due to a shift away from more expensive foreign models.

Other consumer product lines are also moving well. Reason: Consumer buying attitudes remain upbeat. Add in rising personal incomes and consumers will have some extra money to support their confidence.

Durable goods orders are also looking up. At latest report they were running at an all-time high—8% above 1987—with about half of the gain attributable to increased physical volume (see chart).

Much of the increase can be traced back to improved capital spending plans. The latest government survey suggests that plant and equipment spending could be up 8% after adjusting for inflation. Particularly strong here: The metals, machinery and paper industries—sectors that have experienced rising demand (largely because the weak dollar has helped them compete with foreigners). The paper industry now projects a 27% increase in investment for the year.

Also supporting projections for improved capital spending is a big jump in machine tool orders. The first quarter total, according to preliminary estimates, was the highest for any quarter since the 1981-82 recession. And brisk buyer inquiries indicate good business for at least another 3-6 months.

Construction contract awards are bumping along under 1987 levels (see chart). Commercial construction is behind much of the sluggishness—though residential building isn't strong either.

But the latter could pick up in the months ahead. Reason: Buyers are likely to move in anticipation of the somewhat higher mortgage rates that are now being projected for the second half of the year. But construction, even if the lull continues—doesn't seem to be having much of an impact on overall employment. The jobless rate has recently fallen to 5.4%—the lowest level in 14 years. It suggests that top management is betting on continued business improvement.

This thesis is also supported by still-brisk help wanted advertising. This key indicator of business need for labor is close to the all-time high hit in September 1987, before the stock market tumble.

Most analysts are raising their 1988 forecasts. The 51 economists interviewed monthly by Blue

Chip Economic Indicators tell the story. Their average prediction is for a 2.7% increase in real GNP for 1988—significantly above the 1.9% projected gain made right after last fall's Wall Street crash.

And higher industrial production is expected to accompany this improving GNP trend. *PW* forecasts suggest industrial output could outpace the GNP figure by more than 2% this year.

Global wage rates

The United States can no longer claim the distinction of being the highest wage rate country in the world.

A new government study finds that there are several European countries with higher pay costs. In Switzerland and Germany industrial worker pay tabs now run 27% and 25% above the American $13.46/hour. And 12% premiums are noted for Sweden, Belgium and the Netherlands. (see chart)

France, Italy and Canada aren't too far behind the U.S. with pay figures lagging domestic levels by only 8%, 8% and 11% respectively. The Japanese have been the most spectacular—with a 50% lag in 1985 narrowing to only 16% by 1987.

The weaker dollar has been a major factor in making American costs more competitive *vis a vis* many of our overseas industrial competitors. But U.S. wage restraint has also played a role.

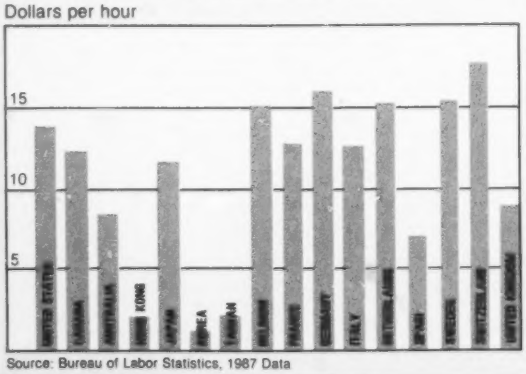
Hourly compensation rose less in this country than in certain key competitive countries even when measured in national currency terms.

Also helping the U.S. along has been better-than-overseas productivity gains. While this report doesn't look at improving efficiency, this suggests that competitive improvement in terms of unit labor costs is even better than indicated by looking at wage rates alone.

And this is one reason our real trade balance is improving. This year projections call for a declining red ink figure in 1982 dollars—from $135.5 billion in 1987 to $110 billion for 1988.

Thus, in nations with low wage rates and currencies tied to the dollar, the U.S. remains at a major disadvantage. Wage rates in Brazil, Korea and Taiwan are at 11%, 13% and 17% respectively of American levels—a fraction of comparable U.S. readings.

Wage rates: A global comparison
(Hourly cost per production worker)



Source: Bureau of Labor Statistics, 1987 Data

Cut those distribution costs

Don't forget distribution outlays when planning your next cost-cutting drive.

A report just released by Davis Database suggests that the sums of money involved are substantial (7.4% of the total sales dollar) for a group of firms that have been surveyed since the beginning of the decade. These firms have indicated that they can pare this percentage significantly.

The latest readings (for 1987) suggest respondents have cut costs 4.2% when expressed as a percent of sales. This makes the seventh consecutive year that this overall percent-of-sales figure has declined.

Progress is uneven as far as type of costs being cut. The biggest improvement of 1987 came in the inventory carrying charge category. The decline (again in terms of percent of the sales dollar) came to 9.9%—far above 1987's 3.8% reduction.

The Englewood Cliffs, NJ management consulting firm credits the inventory improvement to three factors: a favorable and stable low-cost business climate, increased automation, and increasing use of just-in-time inventory systems. Davis Database adds that the challenge will be to sustain momentum now that the big, early gains that usually accompany a new approach have been made.

A 7.1% reduction was noted for transportation. But progress in the warehousing sector was much less—with the percent of sales ratio falling 1.2%.

More distressing is a 3.7% increase in the administrative cost ratio. Companies have been unable to cut costs since these surveys began. This is one area that needs closer monitoring.

The 4.2% average reduction in the distribution/sales ratio of the past year stemmed from the efforts of only 43% of the surveyed firms. While enough to outweigh the 27% reporting increases and the remaining 30% who noted little change, the numbers seem to suggest that more can be done in this critical area.

CURRENT PRICES

Energy moves prices up

Industrial price increases accelerated a bit last month. But much of the speed-up can be traced to energy which advanced over the latest 30-day period—reversing more than six months of steady decline.

More to the point: Eliminate the energy contribution, and industrial boosts remain pretty much in line

with those noted since the beginning of the year.

Coming back to the latest results—the major culprits (aside from the turnaround in energy) are in the basic raw material area—notably metals, chemicals, and paper.

On the metals front new increases were reported for steel mill products, primary aluminum, aluminum shapes, zinc and precious metals. About the only area to back off was copper and brass mill shapes.

As for paper, boosts were noted for fine papers, paperboard, and corrugated containers. And in chemicals, substantial advances hit plastic resins, organic chemicals, and even the more sluggish inorganic chemical sector.

Construction materials are also moving up—sparked by increases in fabricated structural metal, wiring devices and sand and gravel. Gypsum, lumber and plywood (affected by sluggish housing activity) eased off somewhat.

Much more indicative of the underlying rate of inflation were the slow rates of rise in finished goods. Here the increase for the all item index (except food and energy) came to only 0.3%—or about 3.6% at annual rate.

This is also about the rate of advance in capital equipment where only small boosts were reported—most notably in aircraft, printing trade machinery, railroad equipment, and pumps and compressors. Moreover, even these increases were partially offset by some softness in motor vehicles, industrial furnaces, and transformers and power regulators.

A few further words on energy seem to be in order. The latest increase could well prove short-lived—given the problem oil producers are having in curtailing output. Also encouraging on the energy front are new declines in both coal and natural gas.

Upshot: Look behind overall averages—and there is little to suggest any major rise in the general industrial inflation rate.

THIS MONTH'S BREAKDOWN

Index: 1982 = 100

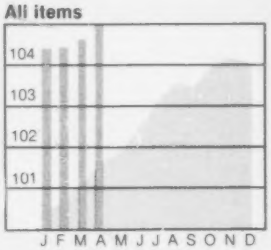
	Latest level (April)	% change from: Month ago	Year ago
Bearings	111.2	1.2	3.2
Bolts, nuts, etc.	106.3	1.0	3.2
Chemicals, inorganic	99.5	0.9	5.9
Chemicals, organic	104.4	1.4	11.9
Concrete products	109.9	0.1	0.5
Corrugated cartons	108.1	1.7	NA
Cutting tools, small	107.0	0.0	0.8
Electric lamps (bulbs)	121.9	−0.2	0.9
Electronic components	115.8	−0.2	1.1
Fans and blowers	113.0	0.7	2.2
Foundry and forge products	108.8	0.6	3.3
Fuel oil (residual)	40.5	−4.0	−22.4
Furniture, commercial	123.7	1.0	4.7
Gasoline	56.8	6.0	−2.2
Glass, flat	109.2	−0.1	2.2
Glass containers	112.3	−0.2	−1.3
Gypsum products	113.6	−1.2	−10.7
Hand tools	120.0	0.8	3.8
Hand tools, power driven	111.9	1.2	2.6
Industrial furnaces	118.8	−0.3	3.9
Integrating and measuring instruments	116.3	0.4	2.4
Internal combustion engines	110.8	−0.2	1.4
Lubricating oil	103.8	0.1	3.7
Lumber millwork	121.3	0.4	3.8
Material handling equipment	106.8	0.2	2.5
Metal containers	109.7	0.2	−0.1
Metal mill shapes (nonferrous)	125.7	3.0	24.5
Metal tanks	102.9	0.5	6.9
Motors and generators	120.2	0.6	5.0
Motor trucks	122.8	0.1	0.2
Office and store equipment	106.6	0.4	2.4
Paperboard	132.6	4.3	14.1
Paper boxes and shipping containers	121.8	1.2	6.7
Paper office supplies	112.5	−0.4	3.6
Paint	111.0	0.4	3.0
Plastic resins	127.1	2.3	19.6
Precision measuring tools	119.2	0.0	4.9
Pumps and compressors	107.5	0.7	2.5
Refractories	113.4	0.9	3.1
Rubber belts and belting	104.8	0.2	2.1
Scales and balances	106.0	1.0	2.4
Steel products	109.5	1.2	8.4
Switchgear	112.9	0.4	2.4
Textiles, synthetic fibers	96.2	0.7	5.9
Textiles, gray fabrics	113.9	0.6	8.1
Tires and tubes	93.4	0.1	3.1
Transformers and power regulators	108.0	−0.2	1.1
Welding equipment	116.1	0.3	5.1
Wire and cable	124.2	0.1	22.0

Industrial prices

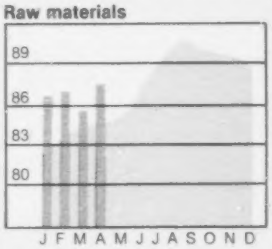
(Index: 1982 = 100)

1987 1988

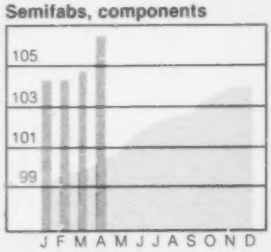
All items



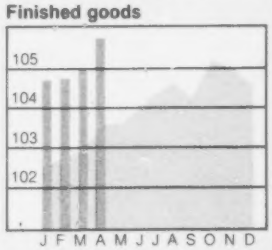
Raw materials



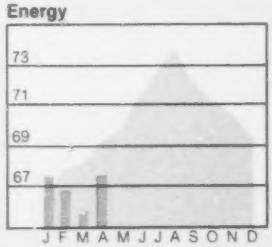
Semifabs, components



Finished goods



Energy



Source: Bureau of Labor Statistics

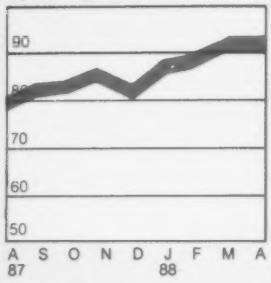
STEEL SCENE

Long leadtimes and shortage fears

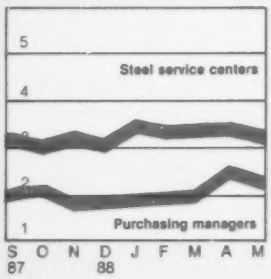
Long leadtimes and fears of shortages continue to dominate the steel procurement scene.

Steel

Operating rates

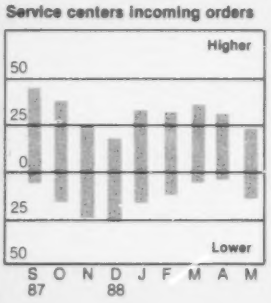


Inventories
(Months supply on hand)

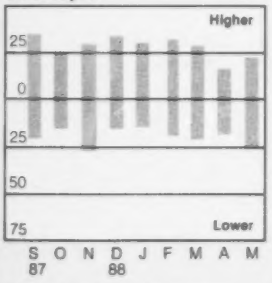


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyers



Lest there be any doubt, take a look at the NAPM Steel Buyer Committee "worry" list. Purchasing managers express concern about nine of the ten product lines monitored.

The biggest concern at this point in time is hot-rolled sheet where 29% of queried buyers fear near-term tightness. Other big problem areas are plate (19%) and cold-rolled sheet (11%).

Only 4% of these buyers say they're keeping a close watch on stainless. Several service centers say long mill leads as well as strong demand have greatly affected their ability to maintain adequate inventory levels—particularly for 60-inch-wide sheet and coiled plate.

These and other distributors responding to the latest Steel Service Center Institute (SSCI) survey are leery of being socked with more price hikes. Specifically, 79% expect increases in their metal replacement costs over the next six months.

But comparison with previous months does seem to suggest that at least a few are beginning to downgrade their price boost estimates. The number expecting decreases has edged up—from 1% last month to 4% at latest report.

Elsewhere, these same distributors remain relatively bullish on demand. More see increases in incoming orders over the next three months (23%) than see decreases (14%).

But there are some signs of possible change. Thus 1) fewer anticipate increases now than a few months back and 2) the gap between those projecting gains and those projecting declines is beginning to narrow.

There is also some concern about a service center inventory buildup. Pointing to this and the significant level of mill activity, SSCI president Andrew G. Sharkey feels that there could be a slowdown in demand for some product categories.

He singles out the steady increase in plate inventories since late 1987—noting that it "raises some interesting questions—especially since we continue to hear reports of long lead-times and unavailability of certain plate products."

And this worry about future demand could have some validity—judging from what steel buyers are saying these days. Only 26% say they expect to cut back on steel purchases over the next three months.

One reason could be that buyer inventories have been increasing recently. Months' supply is now near 2.1—a substantial 15% advance since late last year.

In another sphere, both buyers and service centers are now in complete agreement that import bargains

Import prices
(Compared to domestic)

Steel buyers

ABOVE 64%
SAME 29%
SLIGHTLY BELOW 7%
SUBSTANTIALLY BELOW 0%

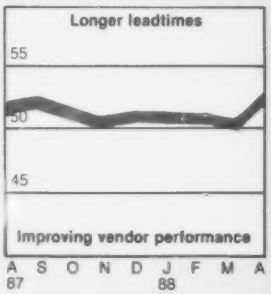
Service centers (carbon)

ABOVE 12%
SAME 88%
5-10% BELOW 0%
10-20% BELOW 0%
OVER 20% BELOW 0%

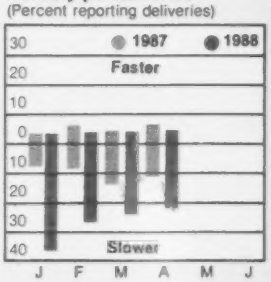
Source: Steel Service Center Institute, NAPM Steel Buyers Committee

Monthly procurement status report

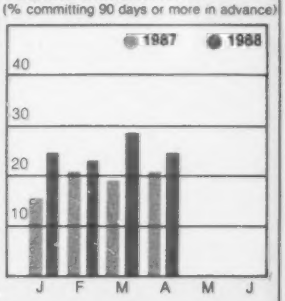
Leadtime index
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



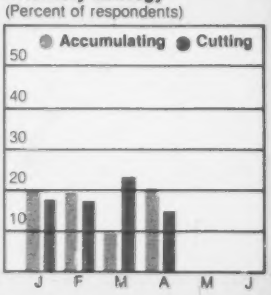
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days or more in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

have all but disappeared. Only 7% of queried PMs say they are now able to get steel for under U.S. levels—and then the savings is characterized as being only slight.

No wonder that not one purchasing manager expects to increase his dependence on off-shore sources—in marked contrast to the 36% who are now planning on lessened dependence on overseas steel.

Service centers tell much the same story as far as foreign *versus* domestic price comparisons are concerned. Indeed, in the carbon steel area, it's hard to find anyone reporting lower overseas tags. And in stainless, the few (14%) who can still get lower prices put the advantage in the low 6-10% range.

PROCUREMENT STATUS

New index shows stretching leadtimes

This month marks the inauguration of *Purchasing-World* magazine's leadtime index (see table).

A word of caution for those who make comparisons with the index readings of earlier this year: The new barometer has purposely been made more sensitive to small changes—so the current 55 level (5 points above the neutral 50 mark) is consistent with the 51-52 readings of the previous few months.

Other index improvements worth noting: 1) an expanded geographical base to include more cities, 2) a much larger sample of respondents, and 3) increased product coverage to include such key office equipment lines as copiers, PC workstations, FAX machines, electronic typewriters, printers and telecommunication equipment.

The new rundown shows the greatest concentration of stretchouts over the past 30 days is in the electronic and metal areas. This is the result of high operating rates and strong demand of these sectors.

The leadtime extensions in these and other areas are also confirmed by the still-large number of items on the NAPM Business Survey Committee short supply list.

A companion NAPM query on speed of delivery shows deterioration—21% report a slowdown *versus* 5% who say things have speeded up.

Those PMs ordering 90 days or more in advance for production materials fell from 29% a month ago to 25% currently. Hand-to-mouth to 30-day ordering increased over the same time span—from 47% to 54%.

LEADTIMES (in weeks)

	Month ago	Latest month
CHEMICALS-PLASTICS		
Adhesives	3	3
Naphthalene	2	2
Paint	4	3
Paint, Coil Coating	3½	3
Paint, Maint.	2	2
Polyester Resin	2	2
Polyethylene Resin	3	4
PVC Resin	4½	5½
Titanium Dioxide	1	1½
ELECTRICAL & ELECTRONIC		
Cables	9½	8½
Circuit Breakers	4½	4
Electromech. Devices	6½	7
ICs (Linear)	6	8½
Motors, Fractional Horsepower	13	14
Motors 1-10 HP	12	13
Motors 10 HP & Up	11	12
Relays	8	8
Transformers	10	10
LUMBER		
Hardwood	2½	2½
Plywood	3	3
Softwood	2	2
Particleboard	3	3
OFFICE PRODUCTS		
Copiers	2	2
PCs Workstations	4	4
Facsimilies	3	3
Pre-printed Form	5	4
Elex Typewriter	3	3
Furniture	3	4
Printers	3	3½
Telecommunications	7	7

	Month ago	Latest month
PACKAGING		
Bags, Kraft	5	4
Bags, Multiwall	6	6
Cartons, Corrugated	3	2
Cartons, Folding	3	2
Cellophane Wrap	3½	4
Plastic Bags	3	2
Plastic Pkg.	4	4
Shrink Film	3½	3½
Drums, Fiber	2	2
Drums, Steel, Std.	2½	2½
Wood Pallets	3	3
Wirebound Boxes	4½	4½
Strapping	3	2½
PAPER		
Fiberboard	4	4
Glassine	5	5
Groundwood	5	5
Kraft	2	2
Kraft, Bleached	2½	3
Kraft, Natural MFNS	1	1
Laminated	6	6
Tissue	5	5
NONFERROUS METALS		
Aluminum Coil	14	15½
Aluminum Plate	19	21
Aluminum Sheet	14	18
Brass Castings	8	8
Brass Rods	6½	6½
Brass Sheet	8½	8½
Brass Tube	8	8
Copper Fittings	2	2
Copper Mill Prod.	6	6
Copper Tube	4	4
Lead	4	4
Magnesium	3	3

	Month ago	Latest month
Manganese	8	9
Nickel	3	3
Silicon	1	1
Tin	2	2
Wire, Specialty	4	4
Zinc	3½	3½
MISCELLANEOUS		
Bearings, Domestic	5	5½
Bearings, Foreign	14	16
Fasteners	6½	6
Fasteners, Std.	2½	2
Insulation Mat'l.	7	7
Machined Parts	4	5½
Pipes & Valves	4	4
Rubber, Synthetic	2	2
Rubber Hose	4	4
Tungsten Carbide Parts	14	14
Valves, Cast Steel	4½	5
Welding Supplies	3	2½
STEEL		
Cold-Drawn Bars	4½	3½
Cold-Rolled Sheet	9½	11½
Forgings	10½	11
Galvanized	4	3
Grey Iron Castings	8	9
Hot Rolled Bars	4½	3½
Pipe, Carbon	4	4
Plate	9½	11½
Sheet	14	14
Sheet Castings	6	7½
Structurals	9½	10½
Tubing	6	6

Based on 300 people covering 6 cities, **PW** feels this is a more accurate indicator of conditions.

Ethical practices of industrial purchasers

by Robert L. Janson, senior manager, C.P.M.
Ernst & Whinney, Cleveland, Ohio

Ethical challenges have dramatically increased for purchasing personnel as well as for management in general. This conclusion was reached based on the results of a survey of Ethical Practices in Purchasing conducted in 1987 by Ernst & Whinney in conjunction with NAPM's Center for Advanced Purchasing Studies (CAPS) and cosponsored by *PurchasingWorld* magazine. Four major areas were studied, all with revealing answers both on their own and when compared with an earlier 1975 ethical survey also conducted by E&W.

- Management ethical direction has changed in a negative sense in the past 12 years; actually somewhat *less* oral and written practices and *less* input from purchasing personnel regarding the policy. Ethical practices reviews have increased from 45% to 50% of the respondents. Reciprocity, however, is down from 21% to 14% of the companies surveyed.
- Sales representatives' approaches are still a common business practice. In fact, holiday gifts, small appliances and clothing offers have increased. "Backdoor" sales were regretted by 62% of the survey respondents.
- "Buyers" outside of the purchasing department are becoming a serious problem since these individuals are usually not subject to stringent ethical policy. Sixty-one percent report unauthorized buying in their companies and 47% mention that specifications are prepared (by other departments) to favor one vendor over another. Overall, 44% of POs issued by managers in health care facilities, educational institutions, and other industries were so tainted. In industry, however, only 27% reported such intrusions.
- Ethical decisions by purchasing personnel have not changed much since 1975. Although golf outings and acceptance of theatre tickets are each down about 40%, the total annual dollar value accepted by purchasing personnel is about the same.

Individual practices

The largest number of survey questions relating to personal practices had to do with acceptance of "favors" from vendors. Respondents were given a list of such "favors" and asked to provide three separate kinds of information. First, they were to indicate which of the listed items were personally acceptable to them if offered by a vendor. "Acceptable" items were defined in the questionnaire as those which did not seem to the respondent to involve an ethical problem.

In order to differentiate between personal and company standards, respondents were instructed to answer this question without regard to their company's policies. They were also asked to specify an upper limit for those items which were personally acceptable only up to a certain dollar value. They were next asked to indicate whether the listed item had ever been "offered" to them by a vendor.

Finally, they were asked to indicate which items they had "actually accepted," and where possible, to give the total yearly value of accepted items. A space was provided for additional unlisted items, but only one respondent listed any additional "favors." Sixty-three percent of the survey group completed this portion of the questionnaire.

The first and third parts of this section—"acceptable" items and items actually "accepted"—were designed to measure the standards and practices of buyers, while the second part—favors "offered"—measured the behavior of vendors. The results of this portion of the questionnaire are summarized below:

Trends in acceptance rate: One significant trend gleaned from the responses was that the number of fa-

vors accepted and the annual dollar value (even allowing for inflation) have both increased when Ernst & Whinney's 1975 study is compared with the 1987 survey.

Survey sponsors and mailings: The purpose was to determine current ethical practices and concerns and to compare 1987 statistical results with the earlier 1975 study also conducted by Ernst & Whinney.

Three mailing lists were utilized: ***PurchasingWorld*** magazine's, the Sales and Marketing Executives of Cleveland and the National Association of Educational Buyers. The Sales Association was selected because a number of general managers as well as sales personnel could thus be asked to provide their experiences.

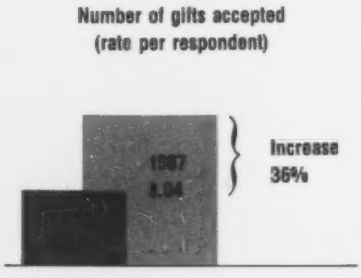
Approximately 1,700 questionnaires were mailed, all selected on a random basis (using every "nth" name on the list) and 236 usable responses were received. This was a 13.9% response rate—good considering that the respondents were asked to provide 102 demographic facts, ethical questions, and answers. Space was also provided for written comments (detail, see examples at end of article).

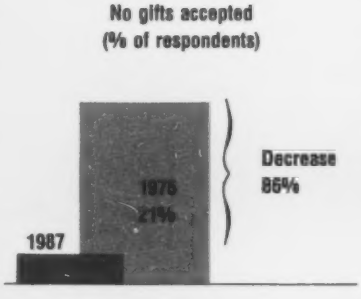
The survey respondents covered a broad range of purchasing titles; 51% were vice presidents, directors or managers and 20% were purchasing agents or buyers. In addition, 29% other individuals [general management (12%), sales (5%), finance (4%)] also completed this questionnaire. Educational background also varied: 71% had at least a college degree. Forty-three states were represented by the respondents; 41% were from manufacturing companies, 34% from service organizations and the balance were from transportation, mining, financial or other industries.

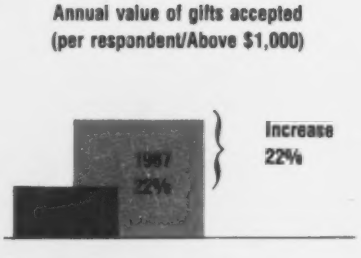
Selected comparisons with other surveys: The 1975 Ernst & Whinney ethical review—the first time anyone had ever studied purchasing ethics in depth—was a regional survey of individuals in Ohio, West Virginia, western Pennsylvania and northern Kentucky. The results encouraged NAPM, and they commissioned the Center for the Study of Ethics in the Profession at Illinois Institute of Technology (IIT) to replicate this survey across the entire United States.

How many accept gifts?

*One significant trend gleaned from the responses was that the **number** of gifts accepted and the dollar value (discounting for inflation) have both increased when Ernest & Whinney's 1975 study is compared with the 1987 survey.*







New 1987 inquiries: Because the purchasing environment has changed dramatically in the 12 years since the original study, a number of new questions were asked in the recent study.

One of these concerned whether the requisitioner (usually the engineering department in manufacturing) is really selecting the vendor. In this regard 47% of the respondents answered "yes" (10%) or "sometimes" (37%) to the question: "Do you believe specifications and/or blue prints are prepared in order to favor one company over another as a sole supplier." A similar tack was taken by asking "Of the total dollars you purchase (issue orders), what percent of these vendor dollars do you personally select?" Fifty-six percent of the respondents indicated that they *do* select the vendors. A further analysis was made of the 44% who *do not* select the vendors, with the result that the following dollar purchases are not selected by purchasing department personnel:

- 27% manufacturing companies
- 46% educational organizations
- 52% health services and hospitals

A third question on this same topic was "Have you been directed by management to use a specific supplier?" Three percent answered "frequently" and 40% "sometimes" to this inquiry. Answers to these three questions seem to confirm a growing trend in purchasing, that is, a much wider group of people in the organizations are making buying decisions. However, their ethical management guidance and standards have yet to be formally studied. There were also numerous suggestions that their ethics are less stringent than purchasing's.

New 1987 questions:

1. *"Do you disclose one vendor's prices to another vendor after award of the contract?"* No—50%; some-

times—36%; regularly—14%

2. *"Do you exaggerate the seriousness of a problem to a supplier in order to get a better price or some other concession?"* Often—3%; sometimes—39%; never—58%

3. *"Do you ask two or more vendors to quote, knowing they will be high, in order to favor another vendor?"* Yes—0%; frequently—4%; sometimes—96%; no—0%

4. *"Is there a maximum value to the gifts your salespeople offer?"* Yes—21%; no—79%. *"If so, please specify?"* $49 average value.

Verbatim comments by the respondents

Here are selected remarks on various highlighted subjects (without editing) by those who participated in the study.

■ *On special ethical problems in industry*—Too many to elaborate... disclosing bid prices to shop for better prices...too many "good buddy" practices exist...price gouging by vendors in a seller's market, graft by buyers in any market...additional responsibility due to government projects...military contracting sees procurement bribery fairly often on major contracts...

■ *On company ethics policy*—Absolutely necessary, law department holds seminars to emphasize... some vague value, not enforced... too much is placed on it, much ado about nothing...good policy but difficult to support when other company departments abuse the philosophy...necessary for company protection...a very "common sense" policy especially helpful to new buyers...too restrictive concerning entertainment...inadequate due to faulty language, too broad of scope, not concise enough...sure there is a written policy, but no one has seen it in the purchasing department...a good idea, protects everyone...

■ *On NAPM "Standards of Conduct"*—Recognized and implemented in all our dealings...am unfamiliar with NAPM standards, you should have included a copy for review and comparison purposes...

■ *On company "Conflict of Interest" policy*—There are some vague values not enforced...ob-

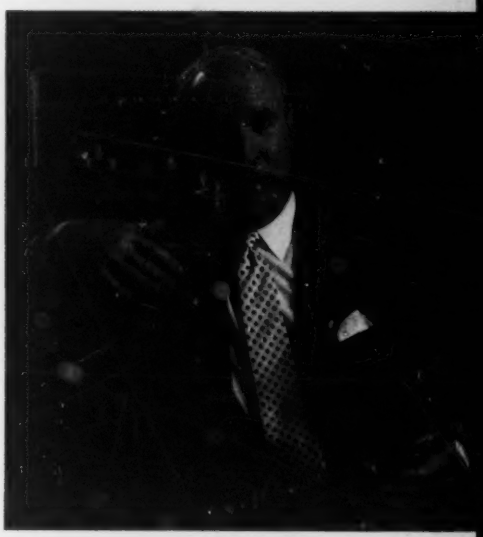
How ethical is purchasing?

Question	Responses 1975 E&W	1977 IIT	1987 E&W/PW
• Was purchasing asked to provide input to Ethics Policy? COMMENT: Looks like less concern for user's opinion.	57%		31%
• Have purchasing departments been reviewed for ethical practice? COMMENT: In spite of more ethics awareness, still same amount of "check and balance" attention.	45%	35%	50%
• Does your sales department give gifts? COMMENT: Appears still to be part of business practices.	65%	80%	68%
• Do you practice reciprocity? COMMENT: Decreasing somewhat.	21%	19%	14%
• Do you disclose one vendor's prices to another prior to award of purchase order? COMMENT: Smaller downturn.	22%	34%	17%
• Do you buy items for employee's personal use? COMMENT: Definitely decreased.	58%		16%
• Do you have different ethical standards when buying overseas? COMMENT: Buyers seem to be accepting two different worldwide standards.		4%	16%
• Do you telephone ("confirming") purchase ordering procedure? COMMENT: More agreements being put into writing on a contract or purchase order.	58%		37%
• Do you have a financial interest in companies you buy from? COMMENT: One strong positive downward trend.	28%		3%

Freebies offered—Who takes them?

Favor	Acceptable (%)	Offered (%)	Was accepted (%)	Respondents reported accepted annual values Average ($)	Range ($)
Advertising souvenirs	85	26	25	39	5 to 200
Lunches	68	83	75	179	10 to 3000
Dinners	48	67	51	197	15 to 1200
Holiday gifts	43	66	26	64	5 to 300
Tickets (sports, theatre, etc.)	37	57	38	89	10 to 500
Golf outings	28	43	25	92	20 to 300
Food & liquor	28	46	30	51	5 to 100
Trips to vendor plants	31	51	30	571	3 to 3000
Discounts on personal purchases	11	24	9	96	15 to 500
Clothing	7	11	6	20	5 to 50
Small value appliances	6	19	7	86	10 to 500
Vacation trips	2	10	2	500	500*
Large appliances	1	4	0.4	—	—
Loans of money	1	3	0	—	—
Automobile	1	2	0.4	—	—

* Note: Only 1 response



vious mistrust of employees...no one practices what they preach... poorly enforced...

■ *On different sales and purchasing standards*—Sales tends to give more, purchasing remains relatively strict...night and day differences, i.e. double standards...our sales people spend a lot of money and efforts wooing clients...we do not give or receive favors...we give but are not allowed to receive...both should have to abide by same policy, in essence, what is good for the goose is good for the gander...

■ *On reciprocity*—Been asked and have refused to ask a vendor to buy our products, both by sales and my direct supervisor, a clear violation...

■ *On disclosing one vendor's prices to another vendor*—Back door purchases do exist and I haven't been able to educate them otherwise, management does it too, they don't know it's not ethical...if a vendor is consistently high, we may indicate the approximate differential.

■ *On visits to vendor plants at their expense*—My boss and other employees have taken expensive trips.

■ *On establishment of formal NAPM disciplining procedure*—Believe companys should handle the situation individually.

■ *On business lunches*—We conduct business with certain vendors at lunch...my policy is no lunches unless out of town...frowned upon for purchasing, however engineering and other departments do it...only "dutch treat," same not true for other departments...

■ *On different standards overseas*—Providing it does not present an embarrassment to other party... we treat them (and gifts) differently than U.S. firms...much more entertainment was allowed, caused major problem...we try to accommodate foreign customs...

■ *On allowing vendors to change a quote after final date*—If they have made a good faith error...only if a change in spec is noted and then all suppliers are open to rebid...if they have a good reason.

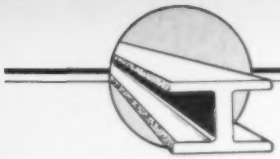
■ *On exaggerating problems to get better price*—If you get caught in a lie, you will eventually pay for it.

■ *On allowing personalities to enter into supplier selection*—Only when the dislike stems from questionable business practices...if it has a bearing on services being provided...if all other factors were equal might be a tie beaker...I've dealt with sales reps I do not like, but they do a good job for the company.

■ *On acceptance of "favors"*—I don't believe *true* purchasing professionals can be influenced by gratuities...in 12 years, been offered a gift once and it was refused...I don't believe a buyer can accept any gift without being indebted, "there is no free lunch"...sometimes difficult to be ethical when (others) take with no repercussions..."breaking bread" is a good business act...ethics is a difficult trait with upper management pressures...our policy is to pick up the check but we are not always quick enough...once declined liquor with such perceived vigor I caused salesman more anguish than value of bottle...normal exchange on non-personal items is considered a manner for companies to extend thanks...if someone can be influenced by something of less than $25 in value, they are in wrong profession...no gift should be accepted that would appear to create a bias...problem is that less experienced buyers are beguiled by fast talking salesmen with great "freebies"...stop looking at purchasing and sales, look at top management, they need an ethics course...

■ *On overall ethics environment*—Ethics have slipped in past 3 years... times have changed, much less offered these days and once you say no, vendors are smart enough not to offer again, I like the change. **PW**

Editor's Note: The complete report will be available in July and will be published by CAPS.



increased sales to companies moving their operations back to the United States and foreign companies transferring their manufacturing to this country to take advantage of favorable currency exchange rates."

US Steel (USX) is leading the price pack, according to Westergren, and though he's uncertain how long demand levels will stay where they are, he believes there won't be further increases in pricing in the near future.

"We've had justified increases," he says, "but there are competitive mills out there, and you have to be sensitive to that."

Staying competitive

To keep in the hunt, National Steel has increased its cost-effective continuous caster capacity—currently at 92%—aiming for 100% by adding one more continuous casting operation, which will be on-line in 1990. The company, which does about 30% of its business with the automotive industry and some 25% with steel service centers, won't "back off on quality," according to Westergren.

Ladle metallurgy—a process in which the molten steel is checked and tested, and even adjusted *in the ladle* for its properties, to assure that the final product is exactly what the customer wants—is used at all three of National's mills, and customers are free to be on site to do their own quality audits. "We feel good about our customers' audits of us," Westergren says.

National also makes use of EDI technology in the materials management area; eventually that type of electronic access will be available to all the company's customers, according to Pat Butto, coordinator, customer communications. That capability will be expanded into other areas as the industry becomes more sophisticated and able to make use of such information and processes.

Steel is available, but tight. Prices are livable (for the most part) but uncertain. Which of the three WEFA scenarios happens next will be determined in the very near future. ***PW***

REPORT ON STEEL

Who'll win, who'll lose

Traditional foreign steelmakers will be big losers in the domestic market over the period from 1985-1990, according to a study published by Wharton Econometrics Forecasting Associates, Bala Cynwyd, PA.

The new study, titled *Cash or Crash? The Economy and the Steel Industry*, says U.S. specialty steelmakers will be winners in the same time span. "By 1990, steel imports will be down nearly 20% from 1985 levels, with traditional steel exporters such as Japan, West Germany, France and Belgium being hit hardest," said John Jacobson, the consulting firm's director of basic industries and the study's principal author. "Imports from Brazil, South Korea and Taiwan, the newly industrialized countries, will do much better."

Domestically, Jacobson added, specialty steelmakers will expand their volume and share of the market, while mini-mills and integrated steel producers will show declines in tonnage terms, even though they will be regaining market share from imported steel.

Mini-mills, the study points out, will be hard pressed to continue 15 years of aggressive increases in market share because they lack the technology and capital required to continue their past record. Meanwhile, LTV and USX, among the large integrated steelmakers, are expected to post declines in shipments, mainly because of further moves to rationalize capacity.

The area of greatest uncertainty, according to Jacobson, is the other "integrated" sector, where many small mills are subject to closure or extensive restructuring; coastal mills like California Steel Industries and USS-Posco will expand aggressively, however, the study maintains. For more information **Circle 128**

Winners & losers, 1985-90
(% growth in shipments by industry participant)

Participant	1985	1990	% Growth 1985-90
	(million net tons shipped)		
Imports	24.1	20.0	−17
Mini-mills	15.2	14.5	−3
Specialty	3.8	4.1	8
USX	12.9	12.0	−7
LTV	10.7	7.8	−27
Bethlehem	8.8	8.5	−3
Inland	4.7	4.65	−1
Armco	4.4	4.2	−5
National	4.4	4.45	1
Big six	45.9	41.6	−9
Other integrated	8.4	9.3	11
Total integrated	54.3	50.9	−6
(minus exports)	1.0	2.5	250
Total industry Steel demand	96.4	87.0	−10

Freight rates accelerate slightly

by Robert S. Reichard, executive editor

Though tariff increases could be slightly more than those envisioned just three months ago, it still looks like a fairly decent year on the freight rate front.

Analysts at Wharton Econometric Forecasting Associates (WEFA) are now calling for about a 3.9% overall boost this year—roughly a percentage point above previous estimates. Smallest increases will be in water, with the 1988 advance put at only 3.1%.

WEFA analysts, in preparing this regular quarterly run down for ***PurchasingWorld*** magazine readers, emphasize that these increases still have to be regarded as quite moderate given the continuing economic uptrend. They attribute this moderation to four factors: 1) relatively small carrier pay boosts, 2) still low, though increasing, energy costs, 3) overcapacity in some sectors, and 4) healthy intra-and inter-modal competition.

The first three of these moderating forces will become less powerful in the years immediately ahead. Nevertheless, the overall increase projected for 1989 and 1990 (4.7% and 5.6%, respectively) are pretty much in line with the increase in overall industrial prices projected over the same two-year span.

■ **Trucking:** Don't expect a repeat of last year when tonnage spurted by nearly 11% as truckers captured share from other modes.

Small rate increases, meantime, have already been posted—namely a 4% boost by several major conferences a few months ago. And another boost may be in the offing to pass along high labor costs stemming from the newly-inked Teamsters contract.

Compensation insurance costs, which could rise as much as 30-40% this year, are also pressuring rates. Behind this bigger-than-industry-average increase is the high risk of trucking accidents—plus the fact that workers can shop between their state of residence, their firm's home state, and the state where the injury occurred to file where the highest benefits are available.

Upshot: Trucking rates are forecast to rise 4.2% this year; slightly more than the 4.0% advance of 1987. They'll continue to escalate to 4.8% and 5.6% in 1989 and 1990.

■ **Railroads:** Demand won't be quite as robust as last year when the Association of American Railroads reported a 9.3% in ton-miles carried. It would be unrealistic to expect anything like that this year.

Meantime, competition from trucks and intermodal links are helping to keep down rates—with an added cost benefit coming from the growing use of doublestack LTL carriage. In any case, rate rises are forecast at only 3.6% this year which is slightly less than last year. But, there will be some acceleration to 4.7% and 5.6% in 1989 and 1990, respectively.

■ **Air cargo:** Another good volume gain is anticipated although it will probably be a bit under the 13%-plus freight increase of last year. Biggest advances are likely after midyear.

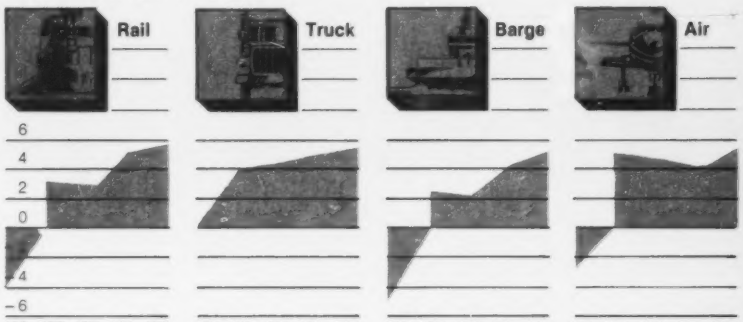
Rate increases, however, will continue to be above average—rising by more than 5% for the second straight year.

■ **Water freight:** A continuing (though diminishing) barge surplus will keep a lid on near-term rate increases. This year's 3.1% gain, for example, will be the lowest among all the modes. But, this figure is above the 2.2% estimate made three months ago.

Ocean rates from the U.S. to northern Europe are also scheduled to go up as U.S. exports to this area increase. But rates going the other way, from Europe to the U.S., remain soft. ***PW***

Freight cost outlook by mode

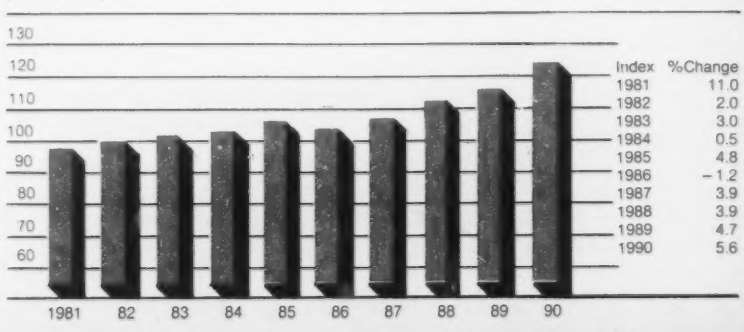
(Percent increase over previous year)



Source: Wharton Econometric Forecasting Associates

PurchasingWorld freight rate index

(1982 = 100)

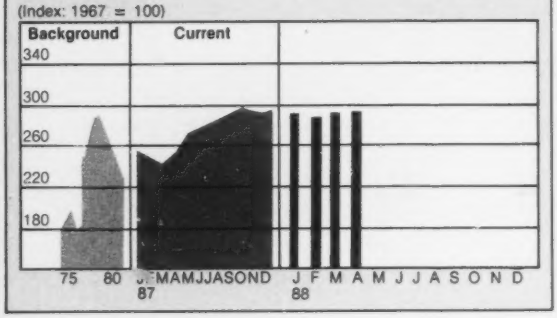


	Index	%Change
1981		11.0
1982		2.0
1983		3.0
1984		0.5
1985		4.8
1986		-1.2
1987		3.9
1988		3.9
1989		4.7
1990		5.6

Raw material price barometer

Latest month 297.2
Month before 292.3
Year ago 253.8

(Index: 1967 = 100)



LATEST SPOT MARKET PRICES

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	16.50
Steel, bars, Pitts., cwt.	16.50	16.50	16.50
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	19.45
Steel, plates, Pitts., cwt.	19.75	19.75	18.25
Steel, plates, H.R., Pitts., cwt.	19.75	19.75	18.25
Steel, sheets, C.R., Detroit, cwt.	28.15	28.15	26.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	1.080	1.110	.655
Antimony, N.Y., dealer, lb.	1.08	1.09	1.15
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.65
Brass, red, 85%, [sheet], lb.	1.66	1.76	1.33
Brass, yellow, [sheet], lb.	1.61	1.71	1.28
Cadmium, N.Y., dealer, lb.	7.90	8.50	1.20
Copper, electrolytic, wire bars, refd., lb.	1.02	1.12	.69
Copper sheet, over 24 in., lb.	1.74	1.84	1.42
Lead, common, N.Y., lb.	.34	.34	.33
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	345.00	345.00	310.00
Molybdenum, oxide, dealer, lb.	3.58	3.70	2.85
Nickel, cathode, dealer, lb.	7.95	8.40	1.92
Platinum, dealer, oz.	517.00	533.00	616.00
Silver, N.Y., oz.	6.37	6.42	8.81
Tin, N.Y., dealer, lb.	3.21	3.19	3.19
Zinc, Prime West, East St. Louis, lb.	.57	.52	.45
Zinc, die casting alloy, No. 3, lb.	.615	.545	.465
PAPER			
Uncoated book #3 offset, ton	920.00	890.00	860.00
Watermarked bond, ton	1070.00	985.00	985.00
Gummed sealing tape, carton	17.33	17.42	16.44
Grocery sacks, ton	455.00	435.00	390.00
Solid bleached paperboard, ton	685.00	650.00	620.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	350.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.283	.280	.241
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.22	1.22	1.13
Cotton middling, 1", N.Y., lb.	.604	.613	.630
Printcloth, 48", 80x80, N.Y., spot. yd.	.540	.550	.640
Army duck, 37", 13 oz., yd.	1.510	1.510	1.445
Blended printcloth, 64", 78x54, yd.	.66	.72	.97
20s combed yarns	2.00	2.04	1.82
Wool 64s, Staple, lb.	4.50	4.50	2.70

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	100.00	100.00	105.00
Benzene, petroleum, tanks, Houston, gal.	1.03	1.15	2.52
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.685	.685	.910
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.53	.53	.28
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.34	.34	.27
Polyethylene resin, low density liner film grade (market place), lb.	.465	.425	.315
Polypropylene, homopolymer grade (market price), lb.	.515	.495	.370
Polystyrene, general purpose grade (market price), lb.	.580	.580	.470
Polyvinyl chloride, pipe grade (market price), lb.	.400	.400	.325
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.450	.460	.420
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	127.50	127.50	145.00
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.870	.800	.770
Xylene tanks, gal.	.870	.890	.850
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	327.05	326.30	325.51
Lumber 2x2 pine, mbf, cl	327.15	332.35	324.56
Plywood, plyform, ¾", msf, cl	579.35	579.45	577.50
Plywood, ⅜", msf, cl	414.45	415.40	382.00
Cement, bulk, ton, tl	65.01	64.44	63.50
Sand, ton, cl	7.32	7.32	7.14
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	49.46	49.04	48.53
Crushed stone, 1½", ton, cl	8.47	8.40	8.06
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.93	0.93	0.89
Gypsum sheathing, ½"x1"x8", msf, tl	228.43	229.43	215.25
Brick, common, per thousand, tl	204.91	204.62	186.67
Asphalt paving, AC-20	129.30	131.99	125.02
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.58	7.57	7.08
FUELS			
Crude oil (W. Tex Int Cush), bbl.	17.50	18.10	19.40
Diesel (reseller rack, Chi), gal.	.505	.538	N.A.
Fuel oil No. 2 (N.Y.), gal.	.515	.508	.520
Fuel oil No. 2 (Gulf spot), gal.	.465	.480	N.A.
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	16.50	15.50	N.A.
Gasoline (reg lded NY), gal.	.541	.533	.554
Gasoline (reg unlded NY), gal.	.529	.520	.542
Kerosene (reseller rack, Chi), gal.	.554	.590	N.A.
Propane (Mt. Belviu, Tex), gal.	.245	.245	.240
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	108.00	113.00	80.00
Steel, No. 1 hvy., dlvd., Chi., ton	111.00	117.00	73.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.890	.925	.625
Copper, No. 2, East, wholesale buy, dlvd., lb.	.795	.845	.545
Brass, red, East, wholesale buy, dlvd., lb.	.850	.885	.585
Brass, yellow, East, wholesale buy, dlvd., lb.	.425	.425	.345
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.620	.695	.415
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.705	.785	.455
Zinc, old, East, wholesale buy, dlvd., lb.	.240	.240	.200
Lead, clean solids, East, wholesale buy, dlvd., lb.	.210	.205	.215
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	20.00	25.00	40.00
Paper, old corrug. box, dlr., N.Y., ton	5.00	10.00	15.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.12	.12	.12
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.33	.30	.23

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]